



Issue Date	March 25, 2003
Audit Case Number	2003-CH-1012

TO: Patricia Knight, Acting Director of Troubled Agency Recovery Center,  
Cleveland Field Office

FROM:   
Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Coshocton Metropolitan Housing Authority  
Tenant Opportunities Program  
Coshocton, Ohio

### **INTRODUCTION**

We completed an audit of the Coshocton Metropolitan Housing Authority's administration of its Resident Council's Tenant Opportunities Program for Fiscal Year 1998. The audit was conducted as part of a comprehensive review of the Housing Authority. The comprehensive review was performed based upon a request from HUD's Columbus Field Office Coordinator of Public Housing Program Center.

The objectives of the audit were to: (1) determine whether the Housing Authority had adequate management controls for safeguarding cash, other monetary assets, and inventory; and (2) review for indicators of possible waste, loss, and misuse of cash, other monetary assets, and inventory.

The audit identified that the Authority: (1) requested \$41,827 in Tenant Opportunities Program funds from HUD without supporting documentation to show the funds were for reasonable and necessary Program expenses; and (2) drew down \$4,796 of Program funds in excess of actual Program expenses. Our report contains three recommendations to address the issues identified in this audit.

In conducting the audit, we reviewed the Housing Authority's policies and procedures for the period January 1999 to April 2002. We also reviewed and evaluated the Authority's: management controls over the Tenant Opportunities Program; reliability of computer-processed data; general ledgers; and its Independent Auditor's Report for July 1, 2000 to June 30, 2001. In addition, we reviewed the Authority's records, HUD's records, bank statements, cancelled

checks, HUD's Notice of Funding Availability and Grant Agreement for the Fiscal Year 1998 Tenant Opportunities Program Grant, and Office of Management and Budget Circular A-122.

We interviewed the Authority's and HUD's staff, and participants in the Tenant Opportunities Program. Our audit covered the period January 1999 to April 2002. This period was adjusted as necessary. We performed our on-site audit work between March 2001 and May 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ronald Farrell, Senior Auditor, at (614) 469-5737 extension 8279 or me at (312) 353-7832.

### **SUMMARY**

The Coshocton Metropolitan Housing Authority did not administer its Resident Council's Tenant Opportunities Program in full compliance with the Authority's Memorandum of Understanding with its Resident Council and the Council's Grant Agreement with HUD. Specifically, the Authority:

- Requested \$41,827 in Program funds from HUD without supporting documentation to show the funds were for reasonable and necessary Program expenses; and
- Drew down \$4,796 of Tenant Opportunities Program funds in excess of actual Program expenses.

### **BACKGROUND**

Section 20 of the United States Housing Act of 1937 authorized HUD's Secretary to provide grants to public housing Site-Based Resident Councils, Resident Management Corporations, and Intermediary Resident Organizations. These resident associations provide resident training such as improving resident educational, professional, and economic levels by providing skills to make them more employable in the local community. Additional goals of the Tenant Opportunities Program include training for residents to resolve disputes in public housing and provide organizational capacity building for newly created resident associations.

The Tenant Opportunities Program Grant Agreement for Fiscal Year 1998, between the Coshocton Metropolitan Housing Resident Council and HUD, for \$100,000 was signed on July 6, 1999. As of January 15, 2003, the Resident Council expended \$14,672 of the Fiscal Year 1998 Grant.

The Coshocton Metropolitan Housing Resident Council, Inc. organized in 1998 as a nonprofit corporation under the laws of the State of Ohio. A Memorandum of Understanding, dated June 12, 1999, was executed between the Resident Council and the Coshocton Metropolitan Housing Authority. The Memorandum required the Authority to follow the Tenant Opportunities Program Grant Agreement regarding the financial administration of the Program. The Memorandum also required the Authority to provide the Resident Council with professional accounting services.

The Coshocton Metropolitan Housing Authority was established under Section 3735.27 of the Ohio Revised Code. A five member Board of Commissioners governs the Authority. The Chairman of the Board is R. Dale Smith. During the audit, the Authority's former Executive Director Edward Ross resigned effective June 1, 2001. The Authority's current Executive Director is Gregory Darr. The Authority's books and records are located at 823 Magnolia Street, Coshocton, Ohio.

### **FINDING**

#### **The Authority's Administration Of The Tenant Opportunities Program Grant Needs To Be Improved**

The Coshocton Metropolitan Housing Authority did not follow its Memorandum of Understanding with the Authority's Resident Council and the Grant Agreement regarding the financial administration of the Council's Tenant Opportunities Program. Specifically, the Authority: (1) requested \$41,827 in Grant funds from HUD without supporting documentation to show the funds were for reasonable and necessary Program expenses; and (2) drew down \$4,796 of Program funds in excess of actual Program expenses. The Authority lacked procedures and controls to ensure the Authority's financial administration of the Program met the Memorandum of Understanding and the Grant Agreement. As a result, HUD and the Authority's Resident Council lack assurance that the Tenant Opportunities Program was administered in an efficient and effective manner.

#### **Federal Requirements**

The 1998 Tenant Opportunities Program Grant Agreement, between the Authority's Resident Council and HUD, states the Grant was awarded on a cost reimbursement basis. Article I of the Grant Agreement required the Council to follow Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations.

Attachment A, paragraph A(2)(g), of Office of Management and Budget Circular A-122 requires that costs be adequately documented to be an allowable cost under a Federal award.

#### **Memorandum Of Understanding**

The Memorandum of Understanding dated June 12, 1999, between the Coshocton Metropolitan Housing Authority and the Authority's Resident Council, required the Authority to follow the Tenant Opportunities Program Grant Agreement regarding the financial administration of the

Program. The Memorandum also required the Authority to provide the Resident Council with professional accounting services.

### **The Authority Lacked Documentation To Support \$41,827 In Requested Funds**

Contrary to Office of Management and Budget Circular A-122, the Authority requested Tenant Opportunities Program funds without supporting documentation to show the funds were for reasonable and necessary Program expenses. Circular A-122 requires that costs be adequately documented to be an allowable cost of the Program. However, this was not done.

The Authority's Resident Council received a \$100,000 Tenant Opportunities Program Grant from HUD effective July 6, 1999. Grant funds were to pay for such items as resident job training, placement assistance, adult basic and literacy education, and life skills. The Authority's Resident Council executed a Memorandum of Understanding with the Authority to perform the financial administration of the Grant. Therefore, the Authority was required to ensure that requested funds were supported by adequate documentation.

In March 2001, the Authority submitted a request for \$41,827 in Tenant Opportunities Program funds from HUD. The request included funds for the following items: \$14,666 for consulting services; \$14,661 for administrative and other costs; and \$12,500 in job readiness training. However, the Authority lacked documentation, such as vendor invoices, to support the requested Program funds. HUD has not approved the Authority's request as of January 15, 2003.

The Authority's former Finance Director said he was instructed by the Authority's former Executive Director to use purchase orders as documentation to support the requested Program funds. However, the Authority's purchase orders were not adequate documentation because the orders did not show the level of the services provided or who received the services. The Authority's former Director said he approved the purchase orders to expedite payment of the Program's expenses.

The Authority's former Executive Director did not implement the necessary procedures and controls over the Tenant Opportunities Program to ensure the financial administration of the Program met the Memorandum of Understanding and the Grant Agreement. The former Executive Director said he was spending most of his time managing an apartment complex that the Authority received from HUD in May 2000 and was unable to supervise the Program's financial administration. As a result, HUD and the Authority's Resident Council lack assurance that the Tenant Opportunities Program was administered in an efficient and effective manner.

### **The Authority's Drawdowns Exceeded Program Expenditures**

Contrary to the 1998 Tenant Opportunities Program Grant Agreement, the Authority drew down Program funds in excess of actual Program expenses. The Authority received \$14,672 in Program funds as of January 15, 2003. However, the Authority incurred only \$9,876 in Program expenses as of January 28, 2003. Therefore, the Authority drew down \$4,796

(\$14,672 less \$9,876) of Program funds in excess of actual Program expenses. The excess funds were in the Authority's bank account as of January 28, 2003.

The Authority's former Executive Director said the Authority requested the Tenant Opportunities Program Grant funds in advance because HUD took up to three weeks to approve drawdowns. He also said he wanted to be sure to receive all the Program funds before the Grant expired. The Authority's records show the Authority usually received its drawdowns from HUD within one day from the date requested, not three weeks. Additionally, the Authority should minimize the time between its receipt of funds and the disbursement for Program expenses. It does not include alternative instructions to be followed when the Grant is near expiration.

### **AUDITEE COMMENTS**

We presented our draft audit memorandum report to the Housing Authority's Executive Director and HUD's staff during the audit. The Authority's Executive Director provided written comments on the draft audit memorandum report on February 11, 2003.

We held an exit conference with the Housing Authority's Executive Director on February 20, 2003. We included the Executive Director's comments in Appendix B of this report. We provided a copy of the audit memorandum report to the Authority's Executive Director and its Chairman of the Board of Commissioners.

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on the draft audit memorandum report follows. Appendix B, pages 11 and 12, contains the complete text of the comments for this finding.]

The Housing Authority received the draft audit memorandum report and reviewed it in great detail. The Authority would like to point out that its current administration has not withdrawn from, used, and/or promoted the Tenant Opportunities Program Grant. The Authority is working closely with HUD's staff in Cleveland and the Program's local partners to revitalize the Program and extend the funding for an additional six months. Additionally, the Authority implemented procedures and controls to administer all HUD funding.

The Housing Authority is currently auditing and gathering potential expenditures to match the \$41,827 of Program funds requested without supporting documentation.

The finding states that the Authority drewdown \$4,796 of Program funds in excess of Program expenses. The Authority believes that it had documentation for \$6,561 of additional Program expenses over and above the previously stated amounts.

### **OIG EVALUATION OF AUDITEE COMMENTS**

The actions planned by the Housing Authority, if fully implemented, should improve its procedures and controls over the Tenant Opportunities Program. The Authority claims that it may have documentation to support the request for Program funds in excess of Program

expenditures and the over drawn funds. However, the Authority did not provide any documentation with its comments to support the expenses. The Authority should provide the documentation to HUD for review.

### **RECOMMENDATIONS**

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

- 1A. Implements procedures and controls to follow the Memorandum of Understanding with its Resident Council and the Tenant Opportunities Program Grant Agreement regarding the financial administration of the Program.
- 1B. Provides documentation to support the \$41,827 in requested Tenant Opportunities Program Grant funds cited in this finding. If the Authority is unable to provide supporting documentation, the Authority should withdraw its request from HUD.
- 1C. Reimburses HUD the \$4,796 in excessive Tenant Opportunities Program Grant funds that were drawn down and not used for Program expenses.

### **MANAGEMENT CONTROLS**

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of the Coshocton Metropolitan Housing Authority's administration of its Resident Council's Tenant Opportunities Program.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based upon our review, we believe the following items are significant weaknesses:

- Program Operations

The Authority's administration of its Resident Council's Tenant Opportunities Program was not operated according to Program requirements. Specifically, the Authority: (1) requested \$41,827 in Program funds from HUD without supporting documentation to show the funds were for reasonable and necessary Program expenses; and (2) drew down \$4,796 of funds in excess of actual Program expenses (see Finding).

- Compliance with Laws and Regulations

The Authority did not follow Office of Management and Budget Circular A-122 regarding the maintaining of documentation to show that Tenant Opportunities Program funds were used for reasonable and necessary Program expenses (see Finding).

- Safeguarding Resources

The Authority: requested \$41,827 in Tenant Opportunities Program funds from HUD without supporting documentation to show the funds were for reasonable and necessary Program expenses; and drew down \$4,796 of Program funds in excess of actual Program expenses (see Finding).



**FOLLOW-UP ON PRIOR AUDITS**

This is the first audit of the Coshocton Metropolitan Housing Authority Resident Council's Tenant Opportunities Program by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Authority covered the period ending June 30, 2001. The Report contained no findings.

Appendix A

**SCHEDULE OF QUESTIONED COSTS**

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1B		\$41,827
1C	<u>\$4,796</u>	
Totals	<u>\$4,796</u>	<u>\$41,827</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

Appendix B

**AUDITEE COMMENTS**



The Coshocton Metropolitan Housing Authority

February 11, 2003

Mr. Edward Kim  
Assistant Regional Inspector General for Audit  
U. S. Dept. of HUD-Office of Inspector General  
200 North High Street – Room 334  
Columbus, OH 43215

RE: AUDIT CASE NO. 2003-CH-100x  
AUDIT FINDING: TENANT OPPORTUNITY GRANT

Dear Mr. Kim:

We are in receipt of the draft audit report issued January 28, 2003 and have reviewed the writing in great detail. We first would like to point out that our new administration as of August 27, 2001, have not withdrawn, used and/or promoted the Tenant Opportunity Grant due to the lack of knowledge and support from the original partnership to foster the program intent. It is our understanding the previous administration believed this grant was funded to the Resident Council for administering. Therefore, the Resident Council President was left to operate a grant without structure.

With numerous issues to overcome, our administration chose to first work on occupancy, vacancy, and basic accounting procedures before we could begin to understand the complexity of your finding.

We are currently auditing and recovering potential expenditures to match your stated \$41,827.00 of grant funds without supportive documentation. You also state, there is \$4,796.00 in program funds exceeding program expenses. As of this writing, we are showing additional expenses with potential accountability that would indicate the TOP grant owes Coshocton Metropolitan Housing Authority – PH funds an amount of \$6,561.08 over and above the previously stated amounts.

Our administration has been closely working with Rita Robinson, Jimmy Davis, Coshocton Jobs and Family Services and Coshocton Behavioral Health to revitalize the program intent and extend the funding for an additional six months. Additionally, our administration has implemented procedures and controls to administer all U. S. Department of Housing and Urban Development funding.



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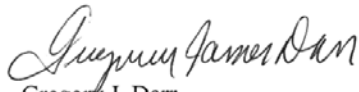


We are hereby requesting additional time to make added response for the following reasons:

- 1) We have just been through the 2002 CPA audit.
- 2) The Troubled Authority Recovery Center is scheduled to be onsite February 24 through 28, 2003, and the third week of March 2003. Carolyn Cain, Team Leader advised they would not be reviewing PHDEP and TOP grant until the third week of March 2003.

Therefore, as we continue our internal auditing and additional support and/or comments from TARC we request you keep the draft finding open until we are able to make our final observations. Based upon the scheduling, I would expect our final response prior to April 30, 2003.

Respectfully,



Gregory J. Darr  
Executive Director

GJD/jn

**Appendix C**

The Honorable Susan Collins, Chairman, Committee on Government Affairs, 172 Russell Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Thomas M. Davis, III, Chairman, Committee on Government Reform, 2348 Rayburn Building, House of Representatives, Washington, DC 20515-4611

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn Building, United States House of Representatives, Washington DC 20515

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

W. Brent Hal, United States General Accounting Office, 441 G Street, NW, Washington, DC 20548

Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue, NW, Washington, DC 20420

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

Gregory Darr, Executive Director of Coshocton Metropolitan Housing Authority

R. Dale Smith, Chairman of the Board of Commissioners for Coshocton Metropolitan Housing Authority